



TECHNICAL NOTE

LATIN AMERICAN DEVELOPMENT BANKING SYSTEM:

Strategic fields of action and scope of
the international financial architecture

ALIDE General Secretariat - September, 2024





Technical Note:

**Latin American Development Banking System: Strategic Fields
of Action and Scope of the International Financial Architecture**

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Introduction

We have been confronting crises on three fronts simultaneously since the year 2020: economic, environmental and health, which, combined with a widespread negative geopolitical situation, have forced us to reconsider issues concerning development and the role that development finance institutions in Latin America and the Caribbean (LAC) should adopt in this situation. These crises have led us to reflect upon, and to question, key concepts of security, risk diversification, climate change, health and the impact of technology on development finance, together with areas like digitalization, energy transition and the protectionist policies of economies like the Chinese and those of the United States (US) and the European Union (EU).

This situation is further complicated by the continued existence of regional challenges concerning infrastructure investment, financial inclusion, agricultural development and support for small and medium enterprises (SMEs) --all of which require states and their development banks to take a more active role in creating public policies and financial products that meet these needs both more extensively and significantly.

Development banks face major challenges in this context, but also have greater opportunities, particularly when confronting extraordinary recent events, like the COVID-19 pandemic, supply chain interruptions and geopolitical conflicts, among other occurrences.

Furthermore, above and beyond their relationships with target customers, development banks must also manage key internal elements, foremost among them the strengthening of corporate governance, in order to avoid external interference and ensure correct accountability, and for program impact assessment. Risk

management is also crucial, particularly insofar as environmental risks are concerned, as well as the strengthening of human talent and cooperation with their peers, and with financing and international cooperation agencies and organizations, among other actors. Development banks must take an agile and proactive approach, in order to align their activities with global trends, thereby consolidating their role as a basic public policy tool. This means executing efficient management of their resources and taking a strategic and sustainable approach in the long term.

The renovation of development banks, given the cited context and the need to redirect their priorities toward development finance, offers a key opportunity for reflecting on a broader-scale redefinition of the global financial architecture. This process also opens the way to working in coordination within an integrating vision, in order to comply with global goals and commitments in a context where Latin America and the Caribbean need to mobilize significantly more resources for their achievement.

Some of these major challenges, together with several considerations concerning a new international financial architecture were recorded as results of the discussions and exchanges of experiences in forums, meetings and research on Latin American finance and development banking, conducted in the framework of the responsibilities of the Latin American Association of Development Financing Institutions (ALIDE). These contributions are described in this document, prepared for the **Finance in Common Summit (FiCS)**, on behalf of the Public Development banks (PDB) and in preparation for the **Fourth International Conference on Development Finance (FfD4)**, to be held in Seville, Spain from June 30th to July 3rd of 2025.



Common areas and global trends for strategic development banking action

Since 2020, for the past four or five years --actually a very short period of time, but a very intensive one given the events that have taken place--, we have been witnesses to the confluence of three simultaneous crises: economic, environmental and health, combined with a geopolitical disaster that have led us to reconsider many concepts and to question ourselves concerning development and the actions taken by development financing institutions in Latin America and the world.

Questions like these, for example:

- ◆ Should decisions concerning investment and the siting of production be governed only by considerations of security and risk diversification?
- ◆ Do problems exist, such as climate change, health and epidemics like COVID-19, as well as food security, among others, that require global initiatives and solutions?
- ◆ How have development financing institutions adjusted to these new circumstances by integrating the new technologies into their processes and developing products and services tailored to the needs of the social and production sectors?
- ◆ How can impact investment be boosted so as to promote employment and greater well-being among the neediest social sectors?
- ◆ What challenges and opportunities are we facing as LAC countries and their development financing institutions?
- ◆ How are we positioning ourselves as a region at this stage of observable readjustment of the trade and power blocs?
- ◆ Are we moving in the right direction and appropriately towards the territorial and urban development of competitive and sustainable cities, particularly those that are smaller-sized?
- ◆ Do our young entrepreneurs have access to an appropriate innovative ecosystem with which to turn their ideas into enterprises intensive in the knowledge and

application of new technologies, so as to create new types of products, enterprises and production sectors?

- ◆ How are we going to move ahead with gender inclusion and what should development bank coaching consist of?
- ◆ And, more recently, up to what point have the new technological advances like artificial intelligence affected the economies and development finance?

These developments, which have created global disturbances, have given shape to different trends in social behavior that are making it necessary to reorient development finance priorities, among them the digitalization of production, energy transition and the intensive use of digital means of payment --in other words, process digitalization, a sphere in which development banks have also had to make adjustments. A greater awareness of environmental issues has also emerged, together with the need to re-examine logistic value chains and an interest in nearshoring production as a driving force for investment. New interest has also awakened in health research, as well as in the revaluation and reshaping of strategic sectors for development.

Insofar as economic protection is concerned, the situation is uniquely noteworthy. Unprecedented industrial protection measures can be seen, especially in the more developed or better positioned economies, and are growing day-by-day. China, the U.S. and the E.U. are responsible for fully 73% of these measures for safeguarding their industries and markets. In many cases, the justification for those policies have scaled up from mere economic considerations to reasons of national security.

At the same time, a series of challenges have emerged for the LAC countries, among them the need to mobilize funds to shore up investment in resilient productive and social infrastructure, digital access and support for employment enhancing activities. Also, of priority are support for SME recovery, women's economic empowerment, promotion of entrepreneurship and the creation of new investment through enterprise nearshoring and regionalization in international value chains. Other key areas include agricultural and rural development, the deepening of financial inclusion, mobilization of climate investment, and support for technological development and enterprise innovation. All of these aspects lie within the area of operation of development banks.

The integration of sustainable practices also makes it necessary to create new financial products that comply with environmental, social and governance (ESG) criteria. The changes involved require that states and development banks play an active and decisive role, not only by taking part in the design and formulation of public policy, but also by coaching its implementation with appropriate financial and non-financial programs and products that would produce a significant economic and social impact.



All of the above, in fact, involves major challenges for states and their institutions, particularly development banks, which, by their very nature, must finance projects that are slow to mature and higher risk, and promote new activities or products that are not yet well-understood in the financial market. They must also serve distant towns or territories that have no access to finance and, in general, respond to the demand for the financing of activities, sectors and territories with an economic and social potential. Their role includes identifying opportunities for business and orienting states in policy formulation for development finance.

In order to play this role, development banks must differentiate themselves from other private financial intermediaries, given that, by their very complementary nature, they seek to rectify market imperfections and produce an addition, aspects that must be taken into account by regulatory and rating agencies, in order to give development banks a larger measure of flexibility than that they are currently endowed with.

TRENDS, CHALLENGES AND OPPORTUNITIES

We have been witnesses in recent years, to the resurgence of the development banking system at the global level, in some regions more so than in others. This movement can be traced to the recognition of its role not only in promoting economic development—now focused on proving itself to be sustainable, inclusive and resilient—but also of acting as a stabilizing element of economic activities during periods of crisis, like the global financial crisis of 2007-2008 or that prompted by the COVID-19 pandemic.

The role it performed during those periods did much to reveal its usefulness, putting the lie to outmoded theories about the possible distortions its actions could produce in the financial markets. Far from doing so, during the COVID crisis, the development banking system showed that by working jointly with the private financial system, it could contribute positively and avoid further deterioration of economic conditions in the countries.

In confronting recent challenges, development banks have demonstrated resiliency and have adapted their supporting instruments to the complex environment in which our economic production systems operate. By way of example, we can underscore the counter-cyclical role they played during the latest crises, when financing tended to lessen in some sectors of the financial market, leading many governments to lean more heavily on their development banks to encourage a proactive union on the part of those financial institutions.

Their function as a public policy instrument in that context was also revalued in a large part of those countries, incentivizing the establishment or strengthening of new banks and development finance institutions at different levels. Some governments—namely, the United States and the United Kingdom—have even begun to study the possibility of establishing a green development bank to finance the energy transition and investment in infrastructure.

The common vision that ties together all of these efforts, as well as the more than 500 development finance banks and financial institutions worldwide (a figure estimated by the Finance in Common Global Network of Public Development banks,) goes far beyond correcting market failures or contributing to development in the traditional way. This vision seeks to facilitate structural transformation processes that position countries more favorably in the new global economy, aiming as it does to satisfy both existing and future needs of the world in which we live.

Given the above, we are in a position to affirm that the existence of development banks



is also justified by the need to create markets where they do not exist and to efficiently develop the existing markets in key areas for structural economic transformation. That includes sectors like agriculture, infrastructure, energy, education, health, small and medium enterprises, and innovation. At the same time, they are facing the global challenges and priorities of a world in constant change, together with others cited previously.

The COVID-19 pandemic without a doubt marked a significant change in our history and, together with the climate crisis, technological advances like artificial intelligence (AI) and geopolitical issues, has created a completely different scenario, to which banks and financial institutions must adjust their structures and vision. That course of adaptation constitutes a historical responsibility for maximizing their potential for mobilizing resources and financing the production system of the future. In order to accomplish this, these institutions need to be endowed with the appropriate expertise and strategic vision, and to transmit their experience to investors and lenders, so as to close gaps in knowledge and financial flows.

Today, unlike during previous periods, we have a much clearer understanding of the role that development banks must play in the coming years. Associations like ALIDE, banking clubs, multilateral organizations and other initiatives that encompass diverse development banks, have been essential in instituting this process. These institutions act like catalysts in disseminating and analyzing the global development finance agenda, identifying future challenges, producing information, sharing best practices and interconnecting actors in the development banking ecosystem at both the global and regional levels.

We can draw attention to, as prominent elements of the global agenda, the United Nations initiative that establishes 17 Sustainable Development Goals (p), proposed in 2015, as a global call to put an end to poverty and to safeguard the planet. Also, to the Paris Agreement on climate change, which aims to limit global warming to far below 2°C, and preferably 1.5°C, of the preindustrial level, and the specific agendas for the banking sector, such as the United Nations Environment Program Finance Initiative.

In the light of all that has been stated above, we can rightly affirm that the frame of reference has been established. Each country and each development financing institution must determine its own priorities, given its particular context. Even so, a consensus exists in regard to the areas and trends that are shared by all the development banking system and that will redefine its future efforts. If addressed appropriately and in a well-timed way, they will become competitive advantages for the economies of their respective countries.

Development banks occupy a privileged position as agents of change, identifying



vanguard sectors that will enable LAC to compete in the future, produce an environmentally friendly development model and develop entrepreneur potentials, thereby making it possible to turn ideas and projects into business. We open the way where others see only risks and problems, by supporting projects in new sectors or products for which market information is incomplete or nonexistent. We empower and equip entrepreneurs who are creating the economy and enterprises of the future with financial and non-financial tools. We identify new areas or sectors for development. What could be better than a development banking system to serve as an antenna that determines where business opportunities and markets are headed? It is our institutions, as pioneers in the finance of environmental projects, that entrepreneurs seek out when they have an innovative project or product to place on the market.

These are some, but not all, of the key factors that are redefining the future of the global economy and in regard to which development banks can play a starring role. Below, we will present some ideas focusing on public development banks in LAC.

Economic development must be sustainable and inclusive. The effects of the climate crisis and the existing gap in financing have made it necessary to deepen efforts to facilitate energy transition processes by developing markets and ecosystems for the finance of green technology and sustainability practices. This transition has implications for the development of new industries in energy systems and within each country's specific public policy frameworks.



Growing global interest can be seen today in sustainable finance as a means for activating the financial sector, capital markets and the various financial markets to attain the SDGs and fulfill environmental commitments.

The development banking system is endowed with the capacity to raise funds for low carbon (decarbonization) activities and to climate change resilient projects, like those involving renewable energy, energy efficiency, and sustainable transport, among others. Fund-raising using labeled activities, like thematic bonds, will become increasingly important among those resource mobilization efforts, making it possible to develop markets of that kind in national financial systems, together with debt-nature swaps.

At the same time, development banks are progressively incorporating climate risk management frameworks (both physical and transitional) and environmental and biodiversity, as well as social, protection policies within their decision-making processes. By way of example, we can mention the Environmental and Social Risk Management Systems (SRMS) and the ESG criteria. It is important to point out that climate risks could affect bank portfolios themselves, making proper management a challenge for the future. By the same token, bank regulatory and supervisory institutions, as well as stock rating agencies, have started to evaluate this kind of criteria within the operations of development banks themselves.

It is likewise important to underscore the complementary nature of actions taken jointly by financial sources, like multilateral and regional institutions and extra-regional development banks with national development banks.

In order to encourage potential customers to consider the benefits of investments using sustainable criteria, development banks can make different training and technical assistance systems, as well as tools, available to them, such as the calculation of savings in energy consumption for interested economic agents. From the internal viewpoint, however, this also represents major challenges. In the case of new industries or those in which many development banks have not yet participated actively, the historical information needed is not fully available at this time and nor are the specific databases for evaluating the performance or risks of operations of this kind, be they financial, physical or transitional. Furthermore, in many cases, DBs lack the internal capacity to address these challenges. In order to resolve this problem, LAC development banks could seek the assistance of multilateral development institutions equipped with strategies and instruments to tackle these matters.

It should be explained here that fully 79% of the development banks already offer green or environmentally-related products in their portfolios, while the remaining 17% intend to do so in the near future. This reflects a widespread commitment to sustainability,

although much still remains to be done. As for the percentage of green loans to total development banking loans, significant differences can be noted between the various types of financial institutions.

The prioritizing of social and financial inclusion is a key goal that development banks can reach using different strategies, to wit: 1) playing a counter-cyclical role during crisis situations, by keeping those that have already joined the financial system from losing this possibility, while those that are outside it do not increase their risk and continue to be excluded from the system; 2) designing specific financial policies and instruments to meet the needs of vulnerable groups and the disadvantaged sectors; 3) promoting the development of financial intermediaries that are more willing to bring in new customers to their banks and serve sectors that have been traditionally excluded from bank use, and 4) forming financial markets in areas where none are to be found, particularly to facilitate the access of lower income groups, small enterprises and subnational governments.

Social or impact investments assume more importance here, as a powerful source of growth and innovation for addressing these challenges. In addition to providing significant returns, these investments produce multiplier effects by improving people's wellbeing, promoting social cohesion, reducing social tensions, creating a favorable environment for business and empowering the most vulnerable sectors. They are essential fund-raisers for financing the social SDGs like housing, health, education, water, sanitation, ending poverty, achieving gender equality, and reducing inequalities. Public policy and institutions like development banks play an instrumental role as catalysts for strengthening an efficient market and ecosystem for social impact investment in the region, tying it in with its activities and projects.

Technological progress and digital transformation, including tools like artificial intelligence, will hasten changes in the production sector and offer opportunities to improve financial inclusion. With regard to this point, we can consider the participation of the development banking system from two perspectives, the first, concerning the digitalization of the institutions' internal processes, to make their operations more efficient, improve the economies of scale and broaden their financial inclusion with new customer solutions and platforms, and the second, the external perspective, involving the financing of enterprise and entrepreneur technological development, to enable them to enhance their productivity levels and create new business models. Rapid technological advances, like automation and artificial intelligence, are transforming industries and modifying the nature of the work. These aspects should be considered within the strategy of development banks for adjusting to the changes and taking advantage of the opportunities offered by technology for the benefit of financial inclusion and economic development.



Innovation finance and support for generating practices and knowledge dissemination promote the creation and development of ecosystems and clusters in new industries.

Development banks can incentivize the creation and development of new industries and enterprises by designing instruments to support startups and entrepreneurs, with innovative venture capital systems, incubators or accelerators in enterprises that could join the value chains of industries that are rapidly changing or require the use of new materials and that do not normally enjoy any financial support systems. By way of example, the technology needed for the transition to clean energy depends upon the use of new minerals and metals that are key inputs for the preparation of products like lithium and other batteries for electrification and electric mobility. LAC development banking has a key role to play in this context of transition, not only in provisioning the key minerals due to its abundant resources, but also in their transformation into products with a greater added value by financing innovation and creating ecosystems and communities of entrepreneurs where ideas can be shared and investors contacted with entrepreneurs.

The rapid demographic changes will have a significant impact on the production model and the fiscal systems.

Demographic growth, the evolution of its composition—like population aging—and changes in labor force dynamics, will have growing and significant economic effects. These may be manifested in several different aspects, like the labor supply, consumer behavior, health systems and the countries' fiscal situation.

Towards the year 2050, for example, demographic growth and dietary changes will produce a larger global demand for food products. Increased productivity is expected to fuel the larger percentage of the required supply (87%). The potential of Latin America and the Caribbean as a food supplier would rest on its natural wealth, powered by the region's investment in technology and genetic improvement. It possesses a large forestry biomass covering 50% of its land surface and almost 25% of the world's forests. It also owns more than 30% of the fresh water and 40% of the renewable aquatic resources at the global level. Despite having only 9% of the world's population and 4% of its rural dwellers, LAC possesses 16% of the agricultural lands and 33% of the area suitable for farming. In addition, the region produces 24% of the food and accounts for 28% of all global agroexports. In this context, the region's development banking system, particularly that dedicated to serving the agricultural sector, has the opportunity to put those advantages to use by developing instruments to enhance its productivity. Among the possible actions to be taken are the digitalizing of cultivation processes, the creation of online markets among agricultural associations and the dissemination of information among them.

Cooperation with the private sector and with other economic agents with similar aims maximizes the impact on development.

Financing, whether public or private, is obviously insufficient of itself to finance our economies' structural transformation. Confronted by this challenge, development banks in countries with a network of development institutions and other public and private agents pursuing similar objectives, can produce shared solutions to leverage resources and create synergies that will make it possible to maximize the use of their capital and the impact of their efforts. That collaboration can include the use of mixed finance models, public-private partnerships and innovative financial instruments, like guarantees, to develop new investments.

Trade nearshoring and its regional integration will continue to open up opportunities for attracting new investments and bettering our economic positioning.

Development banks, particularly those with mandates to promote foreign trade, can join in the major trends in regional integration and the nearshoring of production processes that we will continue to experience in coming years. Proposals in this regard range from seeing to infrastructure needs for connectivity that is sustainable and resilient, ranging from the modernization of customhouses, transportation and communications, to the development of solutions for incorporating small enterprises into global value chains, developing e-commerce platforms, cooperating with international organizations and hosting and conducting commercial events and missions to attract investment.

Intraregional trade and investment must also be boosted through actions to facilitate trade and mobilize resources and technology among our countries. In order to accomplish this, it is necessary to take advantage of the regional market as a platform for cooperation and joint business operations that could help companies become integrated into value chains.

SMEs must assume greater importance insofar as value chains are concerned. In an era of growing digitalization, as commented on at ALIDE's 50th General Assembly in 2020, barely 1% of the SMEs, despite accounting for 67% of the region's employment, 28% of its GDP and over 75% of its export companies, participate in e-commerce on platforms like Amazon, E-bay, Mercado Libre, etc. Furthermore, only 2% of their sales are B2C, while 70% of that business is concentrated in only three countries: Argentina, Brazil and Mexico¹. This situation does little to improve their access to new markets or integration into global value chains; nor does it facilitate an increase in their productivity,

¹ Juan Antonio Ketterer, former head of the Inter-American Development Bank Connectivity, Markets and Finance Division. Presentation at the 50th Meeting of the ALIDE General Assembly «Building sustainable and Resilient Responses to the COVID-19 Crisis - Latin America and the Caribbean», October 7, 9, 13, and 15 of 2020 (virtual mode).



formalization and access to credit and other financial services. While the lion's share of these shortcomings stem from the SMEs' own inherent deficiencies, they are also the result of structural barriers, as well as deficient connectivity and limited Internet penetration, among many other factors.

In discussing **infrastructure finance**, it is important to underscore the significance and urgency of this issue at both the national and global levels, especially for the developing countries. From the region's viewpoint, four challenges or major goals can be identified in working on long-term financing and infrastructure with development banks, as well as in the areas of finance and capital markets. The first goal is to promote a stronger impact and wider scope of the sustainable development goals through coordinated efforts. The second centers on the transition towards a low carbon economy, identified as a global environmental necessity and an opportunity for the LAC region, especially considering the potential for investment in clean energy, like green hydrogen. The third challenge is to mobilize private resources, given that public funds are insufficient because of fiscal restrictions. Public budgets often barely cover the depreciation of the capital needed for these investments. For that reason, other, private, resources must be raised. Lastly, and in connection with the former point, is the need for long-term finance, which requires optimizing relations between the public and private sectors using innovative financial instruments.

The promotion of **gender inclusion** is of basic importance in the LAC region, where roughly 23% of SME businesses are led or owned by women, but are forced to face significant gaps in financing, estimated at US\$91,000 million. These shortages, however, represent opportunities, given that women are known for having much stronger credit records and financial institutions that offer programs specifically for women are able to augment their portfolios without increasing their risk. In order to take advantage of these opportunities, it is first necessary to understand the financial needs of women and to design financial products tailored to their demands, an area in which development banks can play a crucial role by acting as catalysts for significant change through the adoption of appropriate and innovative approaches.

The studies conducted and prospectuses² prepared to evaluate how development banks are addressing the needs of women and their enterprises through innovative programs, products and approaches reveal the existence of several trends. In the first place, multiple definitions for SMEs led by women are seen to be in use at the same time, with 56% of the development banks following this practice, while some 15% have not yet adopted a specific definition. In the case of the program offering, most development banks prioritize production finance (68%), enterprise development (50%), climate finance with a gender approach (43%), and financial education (43%), among other things. As for the products most offered to enterprises of this kind, those that stand out are working capital (74%), investment loans (72%), guarantees (43%), and commercial loans (33%), among others.

Diverse opportunities for financial institutions can be seen in the loan market, each with its own prospects for growth and development. A key opportunity for multilateral banks lies in making use of digital technology and innovations; this would enable them to broaden their scope of activity and to create new financial instruments to satisfy the emerging demand. National development banks, on the other hand, have an opportunity to produce a positive social impact through their operations, in addition to exploring new forms of collaboration by designing financial instruments that would attract investors interested in the social impact and in combined financing models. For the rest of the development banks, the situation looks promising for market growth, together with the possibility of producing positive social effects and establishing new strategic collaboration and associations that would boost their development and capacity for responding to the financial needs of their customers.

The situation described above is confirmed in the results of the survey conducted in the first half of 2023 and 2024 among the community of LAC development banks, where the challenges of the institutions and their future strategic lines of action were identified.

² Global survey of 54 DFIs conducted by a joint initiative of Finance in Common, the IDB and UN Women.

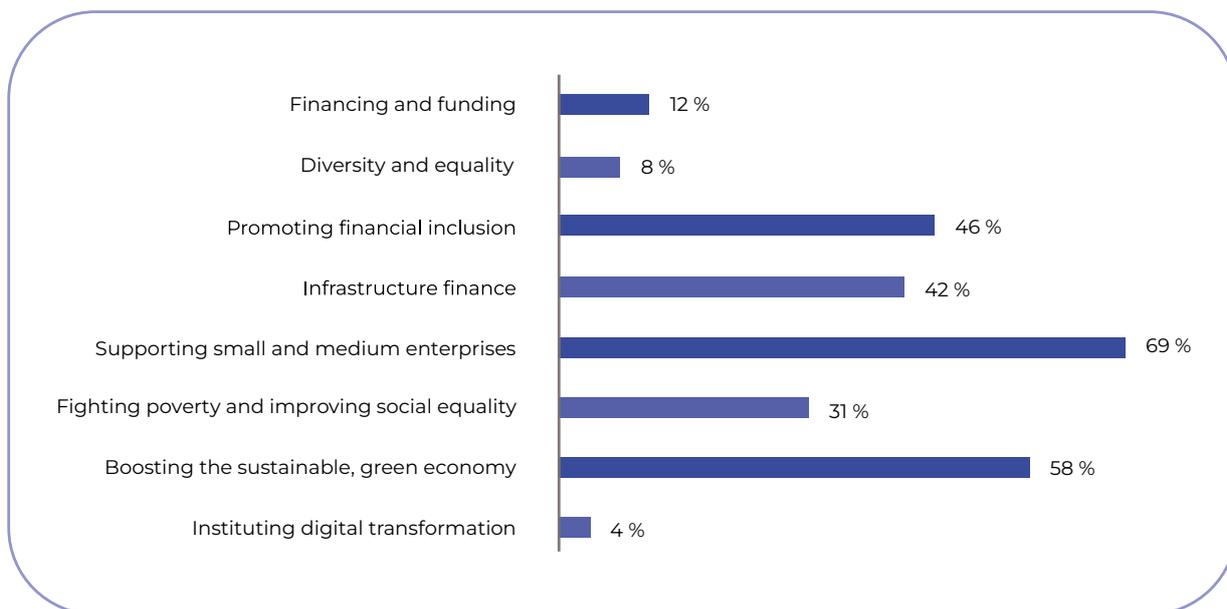
DEVELOPMENT BANKS: PRINCIPAL CHALLENGES

The institutions identified the principal challenges as being:

- ◆ **Supporting small and medium enterprises.** Financial and technical support for small and medium enterprises needs to be reinforced, in order to promote their development and contribute towards creating employment and economic growth.
- ◆ **Fighting poverty and improving social equality.** DBs need to play an active role in implementing programs and projects designed to promote social inclusion, reduce poverty and foment equality in the distribution of resources and opportunities.
- ◆ **Instituting digital transformation.** DFIs are confronted with the challenge of adjusting to, and taking advantage of, digital technologies to upgrade their internal processes, provide services and interact with their customers.
- ◆ **Promoting financial inclusion.** Access to formal financial services needs to be extended, particularly to those population segments that are seen to be excluded, like rural communities, young people and women.
- ◆ **Boosting the sustainable, green economy.** DFIs should promote the transition to a more sustainable economy by supporting projects and undertakings that foster environmental conservation, energy efficiency and the use of renewable energy.
- ◆ **Infrastructure finance.** Infrastructure project finance, like highways, energy, telecommunications, and sanitation, needs to be broadened in order to further economic development and improve the people's quality of life.
- ◆ **Gender, diversity and equality.** It is of basic importance to promote gender equality and diversity in all institutional areas of operation, both in regard to internal decision-making and the implementation of external policies and programs.

Figure N.º 1

Development banks: Principal challenges



Source: Report- Survey (2023) «Perspectivas y panorama actual de la Banca de Desarrollo en América Latina y el Caribe» (Outlook for and current situation of Development Banking in Latin America and the Caribbean); and Report -Survey (2024) «Nuevas Prioridades de los Miembros de ALIDE» (New Priorities of ALIDE Members). Collaborative Study Conducted by ALIDE, the European Investment Bank (EIB) and the 2024 Research Agenda of the Finance (FICs) in Common Global Research Network.

DEVELOPMENT BANKS: STRATEGIC LINES OF ACTION FOR THE FUTURE

The institutions have identified several lines of strategic action for the future, in order to strengthen their role and contribute to the region’s development. These lines of action include the following:

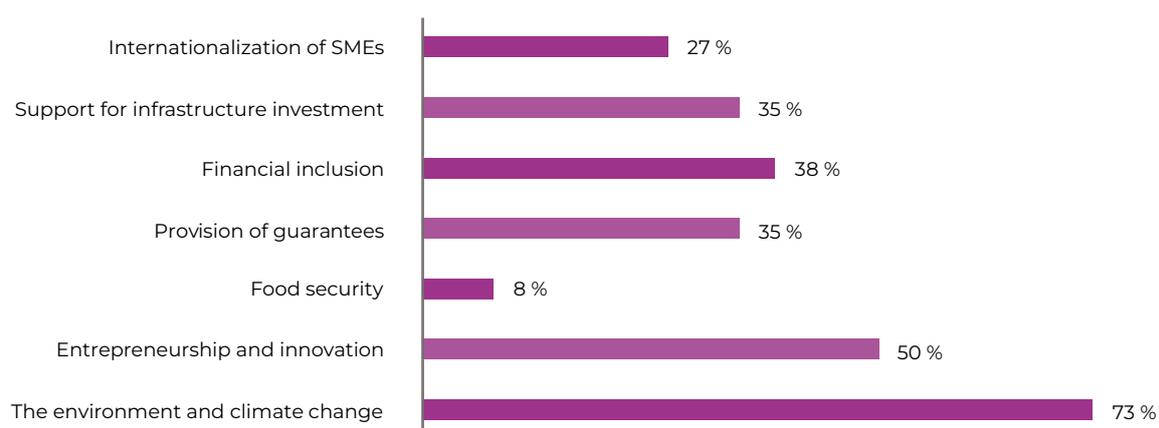
- ◆ **The environment and climate change.** Address the environmental challenges and climate change by supporting projects and programs that promote environmental conservation, boost the adoption of renewable energy, promote energy efficiency and foment the use of sustainable practices in various sectors.
- ◆ **Financial inclusion.** Promote financial inclusion by extending access to formal financial services to segments of the population that are excluded, by forming an alliance with different actors for the purpose of offering innovative and accessible solutions, particularly for rural communities, young people and women.
- ◆ **Support for infrastructure investment.** Provide financing and technical

assistance for sustainable infrastructure projects, including transportation, energy, communication and basic sanitation.

- ◆ **Entrepreneurship and innovation.** Foster an enterprising spirit and innovation as driving forces for economic development.
- ◆ **Provision of guarantees.** Provide guarantees to facilitate access to financing for development projects.
- ◆ **Internationalization of SMEs.** Promote the internationalization of the region's small and medium enterprises (SMEs) by giving them financial support and technical assistance so that they can expand their markets, accede to global value chains and take advantage of commercial opportunities on the international scene.
- ◆ **Food security.** Back initiatives that promote food security in the region, shore up sustainable agricultural production, upgrade the food supply chain and promote the adoption of climate change resilient agricultural practices.

Figure N.º 2

Development banks: Strategic lines of action for the future



Source: Report- Survey (2023) «Perspectivas y panorama actual de la Banca de Desarrollo en América Latina y el Caribe» (Outlook for and current situation of Development Banking in Latin America and the Caribbean); and Report -Survey (2024) «Nuevas Prioridades de los Miembros de ALIDE» (New Priorities of ALIDE Members). Collaborative Study Conducted by ALIDE, the European Investment Bank (EIB) and the 2024 Research Agenda of the Finance (FICs) in Common Global Research Network.

Although other specific trends can be found country-by-country, it can be affirmed that, given the scenario described, development banks can convert the challenges raised into opportunities for development. The unique events that have occurred across the world in recent years, like the COVID-19 pandemic, the disruption in global supply chains, geopolitical conflicts and widespread global inflation, have been phenomena outside the consideration of any prospective study, but which we must not overlook in future planning processes.

These are only one part of the various aspects that should be taken into consideration in managing development banks; the programs, instruments and types of projects that should be targeted are more in line with their given function –their relationship with their customers, in short. Allow us, please, to refer to some other ones that are more closely connected to the internal organization and its relationship with other bodies or interest groups.

Along the latter line, we have:

- ◆ The issue of **corporate governance**, particularly in regard to how we protect DFIs from interference outside the purview of public policy and the management orders of their executives.
- ◆ **Accountability** for their actions in dealing with different interest groups, but essentially before society as a whole.
- ◆ The **impact evaluation of their programs**, whether in the area of finance, technical assistance or any other. How can we know if what we are doing is successful, unless we measure its impact on the people, enterprises or sectors receiving our support?
- ◆ **Risk management**, which, as you know, covers a whole range of risks, summarized today as financial, economic, social and environmental, and, above all, environmental and climate risks. Fully one-half of the ten principal global risks to be identified are directly related to environmental and climate change issues and, of these, four are considered to be critical ³. This is clearly indicative of the urgent need to take remedial measures. The importance of tackling these risks is clearly recognized in the financial sector. Its commitment is to find solutions and strategies for mitigating the risks associated with climate change and other environmental problems.
- ◆ **Human talent**. This is an extremely important matter. How can we guarantee the continuous nature of the human talent that is already being trained, and avoid

³ World Economic Forum Global Risks Perception Survey 2023-2024.

rotation and permanent changes that have nothing to do with technical issues? Human resources in the development banking sector must possess a highly unique mentality, one that is development-oriented, with finance being a means, an instrument for achieving that development.

- ◆ **Relationships and cooperation.** Much can be learned from the existing local financial ecosystem and, in the international sphere, from regional and multilateral agencies and organizations and development banks of other regions, without having to start from zero when embarking upon something that is new or different in one's own country or approaching the possibility of mobilizing financial resources and technical cooperation.

In order to respond properly to such challenges, the region's development banking system needs to take a more agile and proactive approach than in the past. Today, as in very few times in the history of development banking, a global development agenda exists that provides us with a frame of reference for incorporating our institutions strategically within the major trends in global development finance. This fact, combined with the advances made in bank regulation and supervision, as well as in their internal governance and their principles of sustainability and responsible banking, make these development institutions powerful public policy instruments. We can proudly proclaim, with no danger of being mistaken, that this situation has marked the beginning of a new era for the region's development banking system.

In this context, development banks need to consolidate a vision that will enable them to reach a balanced design conciliating their development activities with the preservation of their economic and financial soundness. In the case of general public action, and particularly in the development banking area, it is important to bear in mind certain basic principles when taking effective action. Foremost among these are that: 1) resources must be managed efficiently, by reason of their limited quantity; 2) it should be clearly borne in mind that the road to recovery must be inclusive and setbacks in goals already achieved must be avoided; 3) A strategic medium- and long-term approach must be taken, for what is done today will have an important effect on the economy of the future; and 4) Ensuring sustainability is, has been, and will continue to be one of the most important challenges of this century.



Some considerations for the international financial architecture for development

The current boost being given to the reformation of the national, regional or multilateral development banks offers a key opportunity to ponder on the possibility for a broader redefinition of the global financial architecture. This architecture should foster synergetic relationships and cooperation between all of the actors, among them the national public development banks that operate at the various different levels, together with coalitions of private financiers or regulators, with a view towards reaching the sustainable development goals (SDGs) and other global commitments of singular importance to mankind.

We, in ALIDE, organized a webinar on «**The international financial architecture for development**»⁴ on April 10th in the framework of the Community of Development Banking Practice, a joint initiative with the Inter-American Development Bank (IDB) and the Economic Commission for Latin America and the Caribbean (ECLAC), where several aspects in regard to this issue were underscored, as follows:

1.- The existence of a large gap in financing. In order for LAC to fulfill its commitments on climate action, it will require an annual investment of between 215,000 and 284,000 million dollars --in other words, between 3.7% and 4.9% of the region's GDP-- by the year 2030. A further breakdown reveals that the estimated need for mitigation financing is between 2.3% and 3.11% of LAC's GDP and for adaptation financing is between 1.4% and 1.83% of the region's GDP.

⁴ The references to figures have been taken from the technical note «International Financial Architecture for Development,» prepared for the Webinar of the same name, held on April 10, 2024 and prepared by ALIDE/IDB/ECLAC, under the direction of Esteban Perez, Chief of the Financing For Development Unit within the Economic Development Division, Economic Commission for Latin America and the Caribbean (ECLAC).

The cost of covering losses and damages produced by climate change alone is estimated to reach between \$290,000 and 580,000 million dollars annually by the year 2030.

Anti-climate change financing in LAC amounted to 22,900 million dollars --equivalent to 0.5% of its GDP-- in 2020, far below the required levels. In order to cover the investment needs, current financing, as a percentage of GDP, must be increased 7- to 10-fold.

This is without considering that the need for financing to reach the SDGs is in the neighborhood of between US\$ 4 and 6 billion dollars a year. Pre-COVID deductions were that LAC had an annual gap in SDG financing of approximately US\$650,000 million, meaning that the US\$71,000 million the region received annually in development funds were insufficient.

2.- Options for broadening the capacity to mobilize resources. Reaching the SDGs will require a major effort at fund-raising for a region that invests little. In 2022, LAC had the lowest investment rate (20.4%) of all the developing regions. The rate to be seen in countries with emerging markets and developing economies was 33.4%, in emerging and developing Asia it was 40%, emerging and developing Europe, 25.8%, in the Middle East and Central Asia, 24.9%, and in Subsaharan Africa, 21.8%.

- ◆ Among the most noteworthy options is to **recycle the special drawing rights (SDRs)** of the developed countries toward the developing countries, which was viewed as being one of the swiftest ways to increase liquidity for the latter group of countries. These may be recycled as loans through the International Monetary Fund's (IMF) Poverty Alleviation Fund (PAF) and Resilience and Sustainability Trust (RST), which have already made disbursements to 8 countries amounting to US\$ 913 million. SDRs can also be recycled outside the purview of the IMF as an instrument for leveraging resources.
- ◆ **Create innovative financing mechanisms.** Funds financed by the developed countries are a complementary policy option for expanding the provision of financing by developed to developing countries. A case in point was the approval by the developed countries at the November 2023 meeting of COP28 of the operation of the Loss and Damage Fund that had been on the development agenda for the past three decades. Up until April of this year, the developed countries had promised to contribute US\$655 million to that fund, with another US\$115 million in financing in order to mobilize additional resources to cover losses and damages. Nonetheless, as we saw above, the financial needs to cover losses and damages were estimated to reach between US\$290,000 and US\$580,000 million by 2030.

- ◆ **Strengthen development banking lending capacity.** Strengthening the capacity of development banks to grant loans is another way of enhancing resource mobilization for the developing countries. The lending capacity of development banks can be increased in three different, but complementary, ways, through: increased capitalization, more efficient use of their capital, and greater flexibility of their lending criteria, the last of these involving certain changes in their regulations according to the nature of the projects financed.
- ◆ **Change the reasoning for allocating resources to include more middle-income countries.** Adjusting the volume of resources available to cover the economic, social and environmental needs of developing countries means not only increasing the volume of resources to be loaned, but also changing the reasoning behind the finance, organization and allocation of resources by the international financial architecture to allow for the inclusion of more middle-income countries. Per capita income is considered by multilateral financial institutions to be a key variable for summarizing the country development level and, as a result, a guideline for the allocation of resources by the developed economies to the emerging and developing economies.

Figure N.º 3

Development banks: Financial data

First - Tier Banks	Total assets 1 122.8	Gross loan portfolio 583.2	Net loan portfolio 552.0	Loans and Net investments 938.7
Second - Tier Banks	Total assets 160.6	Gross loan portfolio 81.4	Net loan portfolio 78.6	Loans and Net investments 135.2
Mixed Banks	Total assets 203.3	Gross loan portfolio 133.2	Net loan portfolio 129.9	Loans and Net investments 187.3
Total	Total assets 1 486.7	Gross loan portfolio 758.1	Net loan portfolio 720.8	Loans and Net investments 1 261.2

Source: ALIDE Databank.

There is a vision that considers the existence of a direct relationship between per capita GDP and institutional development. As a result, the reasoning is that as countries progress from low and middle low to middle high and high income levels, they should become progressively less dependent on official aid flows, soft loans and preferential and differentiated treatment in regulatory and commercial terms and depend more on mobilizing domestic resources and acceding to private markets under reasonable or normal financial conditions, thus excluding them from global initiatives that could be highly beneficial to them. This is the case, even if the levels of development of a significant part of their populations and territory are those of a low-income country. Perhaps a territorial, rather than a national, approach, could be taken in considering the matter of development aid.

3.- Limited presence of national development banks in global decisions and/or initiatives.

It is commonplace to note and even considered normal that when initiatives are being discussed or global decisions taken in regard to financing in general and on development banking in particular, the relevant actors or representatives are multilateral development banks, overlooking --unconsciously or not-- national development banks, above all in the less developed countries. A new international architecture should attribute a stronger presence of, and more access by, national development banks to these levels. In the final analysis, they are closer to and more aware of the needs and situations of the poorest and most backward sectors, which is where further resources are really needed to finance development and, overall, the resources they mobilize are considerable in comparative terms. To mention only a few figures, the annual disbursements of development banks in LAC total over US\$350,000 million a year, something like 6 to 7 times more than those of the regional banking system and the World Bank together.

These are only some of the ideas that reflect the importance and role of the development banking system at a time when LAC has the opportunity to change the course of its development to embrace a more inclusive growth. This is taking place during a stage of history characterized by rapid technological change and known as the fourth industrial revolution. Its disruption in almost all industries due to the use of new business models has produced challenges and opportunities that the region's countries need to take advantage of to enhance their development.

To conclude, we wish to leave this message: We reaffirm that **finance is not an «end in itself,» but a vehicle leading toward the broader goal of sustainable development.**





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